

# Nova Wellness Group

## Demand for Supplements Reinvigorated

**NOVA guided for volume growth scaling the mid-to-high teens for FY23 driven by the growing trend of the population consuming health supplements for better defence against communicable diseases, its widening distribution network, and penetration into local public hospitals. We also take comfort in its ability to pass on higher costs and hence sustaining margins. Maintain our forecasts, TP of RM1.09 and OUTPERFORM call.**

**Key highlights.** We came away from a recent engagement with NOVA feeling reassured of its outlook ahead. The key highlights are as follows:

- The group guided for a 15-18% volume growth (which is consistent with our FY23F assumption of 17%), having chalked up an average volume growth rate of 16-18% in FY20-FY22. There has been a surge in demand for health supplement products as consumers take precautionary steps amidst rising cases of the common flu and influenza-like illnesses (following increased contacts within the population after the lifting of pandemic restrictions). Specifically, FY23 volume growth is expected to be fueled by full-year impact from the introduction of 35 new SKUs in FY22 (compared to FY21 of 15 new SKUs) including 6 low glycemic index bread (croissant and sourdough bread), 6 health supplements, and 23 Activmax and Sustinex range of functional food products such as plant-based protein including specialty Activmax for hospitals. Activmax and Sustinex are house brand products developed with embedded vitamins and other nutrients to fulfill consumers' nutritional needs. The group has made further inroads over the past 18 months penetrating into the local public hospitals which has grown from initially 32 to presently 50 and presently accounts for <5% of revenue for its nutritional products. The group saw doubling of distributors to over 900 with target to increase this to 1,200 by FY25.
- We are unperturbed by the recurring amortisation to the tune of RM1-2m per annum arising from the development of new products which is expected to be offset by its incremental revenue. Typically, impairment of intangible assets (non-cash items) relates to impairment of research and development products which is capitalised in the balance sheet. Once the product is commercialised, the R&D costs related to the products is amortised on a straight-line basis based on expected product life span between 5 to 10 years. It is recurring as long as the R&D project for new products continues.
- Looking ahead in FY23, we expect EBITDA margins to revert back to between 46-48% compared to 45% in FY22 (vs. our FY23F assumption of 48%) following the absence of start-up cost incurred arising from commercial production of its new plant. Due to better economies of scale and efficiency coupled with incremental revenue, the new plant is expected to have better overhead absorption and hence margin improvements.
- The group have raised ASPs by 4-5% over the past six months across a range of products to fully pass on higher costs arising from the weakness in MYR (its raw and packaging materials purchased are denominated in RMB and USD). We believe this is a reflection of the low "price elasticity of demand" of the industry. This key input accounts for an estimated 30% of total cost. We have factored ASP to increase by 2% in our FY23F earnings.

## OUTPERFORM ↔

**Price: RM0.89**  
**Target Price: RM1.09** ↔

**Expected Capital Gain: 0.200 22.5%**  
**Expected Divd. Yield: 0.020 2.6%**  
**Expected Total Gain: 0.220 25.1%**

<b>KLCI Index</b>	1,446.4
<b>Stock Information</b>	
Bloomberg Ticker	NOVA MK Equity
Bursa Code	0201
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	318.4
Market Cap (RM m)	281.8
52-week range (H)	1.05
52-week range (L)	0.82
Free Float	14%
Beta	0.5
3-mth avg daily vol:	90,430

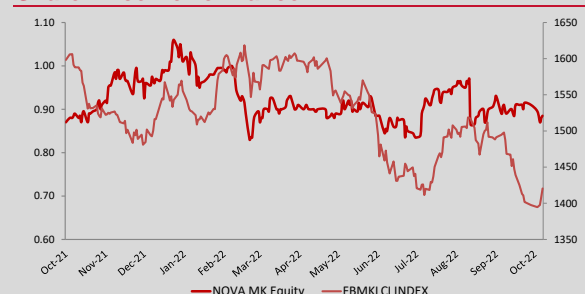
### Major Shareholders

Tan Sok Mooi	42.4%
Phang Yeen Aun	7.9%
Phang Yeen Nung	7.9%

### Summary Earnings Table

FY Jun (RM m)	2022A	2023F	2024F
Turnover	49.1	59.5	70.3
EBITDA	22.8	29.7	34.9
PBT	20.3	27.4	32.3
<b>Net Profit</b>	<b>15.9</b>	<b>21.2</b>	<b>25.1</b>
<b>Core Net Profit</b>	<b>16.6</b>	<b>21.2</b>	<b>25.1</b>
Consensus (NP)	-	-	-
Earnings Revision	-	-	-
Core EPS (sen)	5.2	6.7	7.9
Core EPS growth (%)	13.9	27.7	18.7
NDPS (sen)	3.3	2.3	2.8
Price to NTA (x)	3.0	2.6	2.3
PER (x)	17.1	13.5	11.4
PBV (x)	2.8	2.5	2.2
Net Gearing (%)	Cash	Cash	Cash
Net Div. Yield (%)	3.6	2.6	3.1

### Share Price Performance



	1 mth	3 mths	12 mths
<b>Absolute (%)</b>	-2.7%	-2.7%	0.0%
<b>Relative (%)</b>	-2.7%	-2.5%	9.1%

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### Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
<b>Stocks Under Coverage</b>																	
IHH HEALTHCARE BHD	OP	6.00	7.20	20.0%	52,836	Y	12/2022	18.6	20.5	2%	11%	32.3	29.2	2.2	7.1%	6.0	1.0%
KPJ HEALTHCARE BHD	MP	0.82	0.87	6.1%	3,561	Y	12/2022	2.8	3.4	129%	23%	29.4	23.9	1.6	5.4%	1.2	1.5%
NOVA WELLNESS GROUP BHD	OP	0.89	1.09	23.2%	282	Y	06/2023	6.7	7.9	20%	18%	13.5	11.4	2.5	19.8%	3.0	3.4%
PHARMANIAGA BHD	MP	0.54	0.59	9.3%	707	Y	12/2022	6.1	5.4	-54%	-12%	8.8	10.0	1.5	17.1%	3.3	6.1%

Source: Company, Bloomberg, Kenanga Research

### Stock ESG Ratings:

	Criterion	Rating				
<b>GENERAL</b>	Earnings Sustainability & Quality	★	★	★	☆	
	Corporate Social Responsibility	★	★	★		
	Management/Workforce Diversity	★	★	☆		
	Accessibility & Transparency	★	★	★		
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	☆		
	<b>SPECIFIC</b>	Medical waste disposal	★	★	★	
Usage of biodegradable materials		★	★	☆		
Energy efficiency		★	★	★		
Product safety		★	★	★	☆	
Work site safety		★	★	★	☆	
Staff welfare		★	★	☆		
<b>OVERALL</b>		★	★	★		

☆ denotes half-star  
 ★ -10% discount to TP  
 ★★ -5% discount to TP  
 ★★★ TP unchanged  
 ★★★★ +5% premium to TP  
 ★★★★★ +10% premium to TP

25 October 2022

**Stock Ratings are defined as follows:****Stock Recommendations\*\***

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

**\*\* The Expected Total Return might contain rounding discrepancy**

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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Published by:

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